

NEW APPLICATION ORIGINAL



0000074349

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman
JEFF HATCH-MILLER
WILLIAM A. MUNDELL
KRISTIN K. MAYES
GARY PIERCE

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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, INC., AN ARIZONA
CORPORATION, FOR AN INCREASE IN A
TREATMENT PLANT AVAILABILITY
HOOK-UP FEE FOR ITS MOHAVE
WASTEWATER DISTRICT

DOCKET NO. W-01303A-07-0407

W-01303A-07-0407

APPLICATION FOR A HOOK-UP FEE INCREASE OR A NEW CUSTOMER HOOK UP MORATORIUM

Arizona-American Water Company ("Arizona-American" or "Company") hereby applies
for authority to pursue one of two alternatives:

Alternative A (Arizona-American's *preferred* alternative) – To generate the funds
necessary to construct a wastewater-treatment-plant expansion and to keep Arizona-
American in a neutral financial position with respect to the plant expansion, Arizona-
American asks to:

1. Increase an existing hook-up fee (the Treatment Plant Availability Fee) to
partially fund as a contribution a required expansion of the existing Wishing Well
Wastewater Treatment Plant ("Treatment Plant") for its Mohave Wastewater
District;¹
2. Recover, each month, post in-service AFUDC on the un-recovered plant balance
through recognition of hook-up fees of a like amount in Other Income;

¹ Note that Arizona-American is *not* the water provider for its Mohave Wastewater District customers. The
wastewater and water CC&N boundaries are completely separate geographic areas.

3. Recover, each month, depreciation expense on plant not in rate base through recognition of an offsetting equal amount of amortization of available contribution;
4. Apply, each month, the remainder of the hook-up fee proceeds (after applying first as proposed in 2 and 3 above) to the cost of the plant expansion;² and
5. Be required to file a new Mohave Wastewater rate case on or before May 31, 2008, which will request inclusion of 50% of the actual Treatment Plant expansion costs in rate base.

Alternative B - if the Commission does **not** timely approve the preferred Alternative A, then Arizona-American will not be able to fund further construction of a wastewater-treatment-plant expansion. Therefore, it must regrettably ask the Commission to approve a moratorium on new customer hook-ups for the Mohave Wastewater District.

The Commission has the authority to approve Arizona-American's Alternative-A request because the requested relief is neutral and there was a recent fair-value finding for the Mohave Wastewater District in Decision No. 69940, dated May 1, 2007.³

BACKGROUND

On May 1, 2007, the Commission issued Decision No. 69440, which established new rates for the Mohave Wastewater District. This District's wastewater rates are now based on a June 2005-ending test year and a rate base of only \$435,791.

The Treatment Plant treats virtually all of the wastewater produced by Mohave Wastewater District's customers.⁴ As of December 2006, there were a total of 1,186 wastewater service connections in the Mohave Wastewater District, of which 1,180 were residential. The

² The monthly calculation of post in-service AFUDC would recognize each prior month's application of remaining available hook-up fees as a reduction to the cost of the expansion.

³ In Decision No. 66512, the Commission stated that it had approved other hook-up fees and other revenue neutral CIAC applications without a fair-value finding.

⁴ There is another small wastewater treatment system that treats wastewater produced by three commercial customers.

1 Treatment Plant experienced peak demands of over 200,000 gallons per day in the first quarter of
2 2007,⁵ and has an existing design capacity of 250,000 gallons per day.

3 In May 2007, Arizona-American began expanding the capacity of the Treatment Plant,
4 based on a final design and low bid submitted by Technology Construction, Inc. An Aquifer
5 Protection Permit has already been issued and the Arizona Department of Environmental Quality
6 has approved adding an additional 250,000 gallons per day capacity at the Treatment Plant. The
7 Treatment Plant expansion is estimated to cost \$3,926,000 (see Exhibit A), with an anticipated
8 in-service date of December 2007.

9 **THE TREATMENT PLANT EXPANSION IS NEEDED TO SERVE NEW CUSTOMERS**

10 Based on growth projections, demands will approach the design capacity of the
11 Treatment Plant by early 2008. The 250,000-gallons-per-day expansion of the existing
12 wastewater treatment plant will allow for approximately 1,500 additional service connections.
13 This is based on historical wastewater flows of 168 gallons per day, per service connection. In
14 its five-year business plan, Arizona-American forecasts the following additional service
15 connections for Mohave Wastewater.

2007	143
2008	156
2009	200
2010	162
2011	<u>121</u>
Total (2007-11)	782

16 Thus, the Treatment Plant expansion will provide enough capacity to serve about ten
17 years of customer growth.

18 **THE PLANNED TREATMENT PLANT EXPANSION HAS BEEN FULLY DISCLOSED**

19 Arizona-American has already provided adequate notice to parties who may be affected
20 by the Treatment Plant expansion. The Company informed Staff engineer Marlin Scott about the
21 expansion during his field visit to the existing Treatment Plant in 2006. As part of Mr. Scott's
22 September 5, 2006, direct testimony in the Mohave Wastewater rate case, Mr. Scott stated that:

⁵ This is a winter peaking system.

1 According to the Company, [the Treatment Plant] will be increased by an
2 additional 250,000 GPD capacity in 2007. Currently, this expansion is in the
3 design stage, with the bidding process to proceed by the end of 2006, and
4 followed by construction of a period of nine months.

5 Arizona-American made employees available to answer any questions Mr. Scott had during his
6 visit, including issues relating to the Treatment Plant expansion.

7 Arizona-American's Mohave Wastewater customers each received a notice via a door
8 hanger warning (Exhibit B) that the Treatment Plant was nearing capacity and requesting
9 conservation in the interim until the expansion was complete. The Company also informed
10 developers that it planned to fund the Treatment Plant expansion via an increased hook-up fee,
11 and language was inserted into new line extension agreements to ensure the broadest
12 applicability once the Commission approved the hook-up fee increase. A copy of an excerpt
13 from an agreement containing the hook-up fee notification provision is attached to this filing as
14 an Exhibit C.

15 Arizona-American is also willing to issue another public notice to each Mohave
16 Wastewater customer following a decision in this matter in order to keep existing customers well
17 informed concerning the new rate case application which would be filed by May 31, 2008.

18 **ALTERNATIVE A – HOOK-UP FEE INCREASE AND ACCOUNTING APPROVALS**

19 The existing Treatment Plant Availability Fee is \$785 per new connection without regard
20 to meter size, as authorized by Decision No. 69440. Arizona-American now asks that the
21 Treatment Plant Availability Hook-Up Fee be set at **\$2,600** per new 5/8 inch water-meter
22 connection and greater for larger volumetric meter sizes, as displayed in the proposed attached
23 Tariff TPA-1 (Exhibit D).

24 On or before May 31, 2008, Arizona-American will file a new rate case to recover 50%
25 of the completed cost in rate base. The Commission will have an opportunity at that time to
26 review the final expansion costs and revise the hook-up fee if necessary in that case.

1 Upon issuance of a final decision in the next Mohave rate case (and assuming 50% of the
2 cost is approved to be placed in rate base), Arizona-American will continue to apply the hook-up
3 fee proceeds as a contribution to the remaining 50% of the completed actual cost (\$1.96 million
4 present estimate) of the expansion until it is paid off. Once the post in-service AFUDC and
5 depreciation on plant not in rate base and 50% of the completed actual cost has been collected
6 via the hook-up fee⁶, Arizona-American will file (several years from now) an application to
7 reduce the hook-up fee to the appropriate level at that time. However, if the area continues to
8 grow beyond the ability of the expansion to serve, subsequent increases in wastewater capacity
9 will be necessary.

10 **ACCOUNTING APPROVALS ARE NEEDED TO STOP FURTHER EQUITY EROSION**

11 Arizona-American's shareholder cannot absorb the carrying costs on this project as a
12 result of regulatory lag and it needs approval which achieves neutrality. In order for Arizona-
13 American to complete this plant expansion (an otherwise **nine**-fold increase in rate base), the
14 Commission must approve the hook-up fee increase, on-going recovery of post in-service
15 AFUDC and amortization of contributions to match un-recovered depreciation. Without these
16 approvals, Arizona-American's shareholder would be forced to absorb the cost of this project.
17 However, our shareholder has absorbed the costs of a number of projects and can no longer do
18 this. The approximate first-year revenue requirement associated with a \$3.92 million
19 construction project is \$659,000, about \$75,000 more than the Mohave Wastewater District's
20 approved revenue in Decision No. 69440. Thus, without the requested accounting relief, the
21 expansion would further erode equity. The shareholder cannot be asked to fund a project that
22 would generate a negative return on equity for several years to come.

23 **UNLESS STAFF RECOMMENDS APPROVAL OF ALTERNATIVE A,**
24 **ARIZONA-AMERICAN MUST STOP CONSTRUCTION**

⁶ Based on the growth project, the hook-up proceeds will reach \$1.96 million in 2012.

1 As stated earlier, construction of the Treatment Plant expansion has been underway since
2 late May 2007. The Treatment Plant expansion construction contract allows Arizona-American
3 to "suspend work for a period of not more than 90 days, upon written notice to the Contractor
4 which fixes the date for work resumption." To reduce the financial risk of a hook-up fee denial,
5 if a Staff report recommending approval of the hook-up fee has not been issued by late July,
6 2007, Arizona-American must then suspend construction until the Commission approves the
7 relief requested in Alternative A. If the Commission has not approved Alternative A by the end
8 of the maximum 90-day work suspension, Arizona-American will have no choice but to
9 terminate the construction contract. There is a cost to a suspension and Arizona-American
10 would need approval of recovery of suspension costs in order to resume construction.

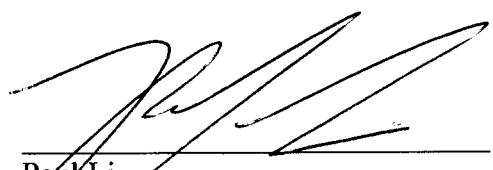
11 **ALTERNATIVE B – HOOK-UP MORATORIUM**

12 If the Commission does not timely approve Alternative A, Arizona-American will not be
13 able to fund further construction of a wastewater-treatment-plant expansion. Therefore, in that
14 event, it must regrettably ask the Commission to approve a moratorium on new customer hook-
15 ups for the Mohave Wastewater District.

16 **RELIEF REQUESTED.**

17 Arizona-American Water Company requests that the Commission **expeditiously** approve
18 the Company's requests set forth in Alternative A and in Exhibit D. If the Commission does not
19 timely approve the Alternative-A requests, then Arizona-American asks that the Commission
20 approve a hook-up moratorium for Arizona-American's Mohave Wastewater District until such
21 time as the Company can secure additional wastewater treatment capacity for new customers in a
22 financially neutral or positive manner.

1 RESPECTFULLY SUBMITTED on July 2, 2007.

2
3
4
5
6 
7 Paul Li
8 Regulatory Counsel
9 Arizona-American Water Company
10 19820 N. 7th Street
11 Suite 201
12 Phoenix, Arizona 85024
13 (623) 445-2442
14 Paul.Li@amwater.com

15 Original and 13 copies filed
16 on July 2, 2007, with:

17
18 Docket Control
19 Arizona Corporation Commission
20 1200 West Washington
21 Phoenix, Arizona 85007

22
23 Copies of the foregoing
24 mailed on July 2, 2007, to:

25
26 Hearing Division
27 Arizona Corporation Commission
28 1200 West Washington St.
29 Phoenix, Arizona 85007

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31 Legal Division
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33 1200 West Washington St.
34 Phoenix, Arizona 85007

35
36 Residential Utility Consumer Office
37 1110 West Washington Street
38 Suite 220
39 Phoenix, Arizona 85007

40
41
42
43 By: _____
44 Courtney Appelhans

EXHIBIT A

DETAILED COST ESTIMATE

DETAILED ESTIMATE OF COST

EXHIBIT B
Page 1 of 1

Region: WESTERN
Business Unit: ARIZONA AMERICAN
Sub-Business Unit: MOHAVE
Project Title: WWTP EXPANSION PH1 - 0.25 MGD
Business Unit No.: 23720402

PROJECT SUMMARY

Estimate
TOTAL Project Cost
\$3,926,538

Preliminary Costs

Land and Asset Acquisition
Preliminary Engineering and Planning
Detailed Design, Bidding, and Award
Permit Acquisition
Capitalized Clearing & AAW Labor
AFUDC

Preliminary Costs Sub-Total

\$0
\$112,000
\$150,000
\$3,500
\$13,594
\$18,141
\$297,235

Implementation Costs

Construction Administration
Technical Review Services
Resident Observation

NARUC Acct.

Secondary Construction Cost Category

Subtotal

\$30,500
\$4,000
\$40,320
\$74,820

Site work
Concrete
Masonry
Metals
Painting
Equipment
Mechanical
Electrical

BID ITEMS

Submersible Pumping Equipment
Screw Press Equipment
Polymer Blending Equipment
Screenings Removal System
Process Air Blowers, Aeration System, & Piping
Packaged Wastewater Treatment Plant
Mobilization, General Conditions, and Other Site Work

Omissions & Contingencies

Capitalized Clearing

AFUDC - Implementation Costs Only

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Subtotal - Plant Only

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Implementation Costs Sub-Total

Contributions or Advances Sub-Total

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\$82,679

\$438,012

\$36,200

\$180,145

\$578,277

\$700,624

\$994,686

\$3,012,623

\$154,372

\$3,241,815

\$165,981

\$221,507

\$3,629,303

\$0

\$0

\$0

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\$0

\$0

\$0

\$0

\$0

Cost of Removals Sub-Total

\$0

EXHIBIT B

DOOR HANGER



Wastewater Notice

Dear Wastewater Customers:

Most of us don't pay attention to what happens to water when it leaves our toilet, shower or sink drain. While we know conserving water is always a good idea, conserving water also reduces the strain on our wastewater plants by reducing the amount of wastewater that flows out of our homes.

Our Mohave Wastewater Facility that treats your wastewater is nearing capacity. It is important that all our Mohave wastewater customers reduce the water that is going down their drains, especially during peak morning hours. Reducing your water use will reduce the strain on the wastewater facility, allowing the plant to meet our needs until the plant is expanded.

You can assist our community by conserving water and reducing wastewater flowing from your home. We are here to help you, with low-flow showerheads, indoor faucet aerators and dye tablets to check your toilet for leaks.

To receive these items, simply log onto our website www.saveh2oarizona.com and complete the Water Conservation Kit request or call our conservation office at (623) 445-2416 and we will be happy to mail a kit to you.

Please check out the indoor water saving tips on the reverse side of this door hanger.

For more information on water conservation please contact Arizona American Water's conservation office at:

(623) 445-2416
www.saveh2oarizona.com

EXHIBIT C

EXCERPT FROM LXA

**WASTEWATER FACILITIES
LINE EXTENSION AGREEMENT**

This Agreement is made this 15th day of November, 2006 by and between Arizona-American Water Company, an Arizona corporation (hereinafter referred to as "Utility"), with offices at 19820 North 7th Street Suite 201, Phoenix Arizona 85024 and Los Lagos, LP, (hereinafter referred to as "Developer") with offices at 5635 S Highway 95, Suite B, Fort Mohave, Arizona 86446.

WITNESSETH

WHEREAS, Utility provides public utility wastewater service in portions of Mohave County, Arizona; and,

WHEREAS, Developer proposes to develop a single-family home subdivision totaling approximately 389 lots known as The Greens At Lagos tract 4186, (hereinafter referred to as "Development"), as described in Exhibit "A" attached hereto and incorporated herein by reference; and,

WHEREAS, Developer has requested Utility to provide wastewater service in said Development; and,

WHEREAS, to meet the public utility wastewater service needs of the Development, certain Wastewater Collection Facilities, as described in Exhibit "B", attached hereto and incorporated by reference, must be constructed; and,

WHEREAS, Utility is willing to have Developer design and construct said Wastewater Collection Facilities, subject, however, to Utility's approval of such design and construction; and,

WHEREAS, The Greens at Lagos Tract 4186 is within the Utility's certified sewer service area under a Certificate of Convenience and Necessity issued by the Arizona Corporation Commission (hereinafter referred to as "Commission"), and,

WHEREAS, Utility and Developer must obtain certain regulatory approvals before wastewater facilities can be constructed and wastewater service provided to the Development.

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties hereby agree as follows:

Initial KM

Refunds shall be payable for a period of five (5) years from the date of Utility's Operational Acceptance of the Wastewater Collection Facilities, but in no event shall the refunds paid to Developer exceed the total amounts paid by Developer as advances in aid of construction. Any balance remaining at the end of the fifth year (5 year) period shall become nonrefundable. No interest shall be paid on any amount advanced.

VI. General Provisions

1. Upon execution of this Agreement, Builder will pay to Utility a plan-review fee equal to 4.84% of the total costs set forth on Exhibit B to compensate Utility for the cost of its coordination, reviews, inspections, testing, and approvals (including all related overhead costs, etc.) incurred by Utility under this Agreement. The 4.84% plan-review fee is deemed the final and reconciled costs for these services provided by Utility. Utility will credit toward the plan-review fee any previously paid deposits concerning the Distribution Facilities.

2. Prior to requesting wastewater service, Developer shall pay all current tariffs and other applicable connection fees to Utility. All fees due within 30 days of Operational acceptance of wastewater collection facilities. Utility has no obligation to provide wastewater service in said Development until all tariffs and fees have been paid as provided in this paragraph.

3. This agreement is under the continuing jurisdiction of the Commission. Service will be provided in accordance with the rates and conditions in effect at the time the service is provided. To fund future treatment upgrades, the Commission may authorize hook-up fees or other charges to be paid by the home builder as a condition of receiving service.

4. Utility shall, upon Operational Acceptance of the Wastewater Collection Facilities, and payment of all fees required hereunder or by the terms of the then current and applicable tariffs of Utility, provide wastewater service to the Development in accordance with the rates, charges and conditions set forth in the tariffs of Utility as filed with the Commission. Utility has no obligation to provide wastewater service to a lot in said Development until Developer has paid all required fees.

5. Utility shall use its reasonable best efforts to maintain satisfactory and continuous service, but does not guarantee a continuous supply of wastewater service. Utility shall not be liable for damages occasioned by interruptions or failure to commence service or unsatisfactory service or any act or failure to act arising out of this Agreement caused by an act of God or the public enemy, accident, fire, explosions, strikes, riots, war, delay in receiving shipments of

11. This Agreement represents the entire understanding between the parties with respect to the subject matter herein and those which are reasonably related; there are no oral or collateral agreements with respect thereto between the parties. All changes or amendments to this Agreement must be in writing and signed by the parties hereto.

12. This Agreement shall be binding upon and inure to the benefit of the parties hereto, and their respective legal representatives, successors and assigns. However, Developer shall not assign its rights, obligations and interest in this Agreement without the prior written consent of Utility, and any attempted assignment without such consent shall be void and of no effect.

13. Utility reserves the right to deem this Agreement null and void if construction of the Wastewater Collection Facilities has not started within one year from the date of this Agreement. If construction has not started construction within one year from the date of this Agreement, Developer may issue a written request to Utility for an extension of this Agreement. Utility's acceptance to said request for extension will not be unreasonably delayed. If Utility deems this Agreement null and void, Utility will send written notice of cancellation of Agreement to Developer via certified mail to the address shown in Section V.9.

14. Developer estimates a construction start date of 1st day November, 2006 and a construction completion date of 30th day June, 2007.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate originals, as of the day and year first above written.

Arizona-American Water Company,
an Arizona corporation

By: _____

Robert Bloor

Regional Vice President

AMERICAN

Eugene Dieb

Los Lagos, LP
a Delaware limited partnership

By: _____

Angelo Rinaldi
President

STATE OF ARIZONA)
)ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 15 day of November, 2006, by Robert Bloor, Vice President of Arizona American Water Company, an Arizona corporation, on behalf of the corporation.

Alexandra L. Treloar

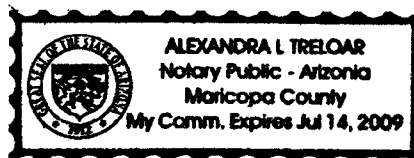
Name

Admin. Assistant

Title

My Commission expires:

July 14, 2009



STATE OF ARIZONA)
)ss.
County of Mohave)

The foregoing instrument was acknowledged before me this 19th day of October, 2006, by Angelo Rinaldi, President of Los Lagos, LP, a Delaware limited partnership, on behalf of the partnership.

Name

Jill Jackson

Title

My Commission expires:

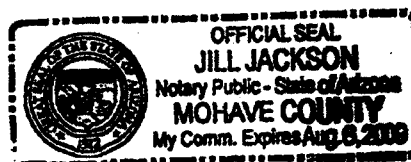


EXHIBIT D
TARIFF TPA-1

Treatment Plant Availability Hook-Up Fee TPA – 1

Applicability

Applicable to all new sewer Service Connections within the Company's CC&N.

Purpose

The purpose of the hook-up fee pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide wastewater treatment among all new Service Connections.

Definitions

Unless the context otherwise requires, the definitions set forth in Rule No. 1 shall apply in interpreting this tariff schedule. The following additional definitions apply to this tariff schedule only.

"Main Extension Agreement" means any agreement whereby an Applicant agrees to advance the costs of the installation of on-site wastewater facilities (including collection mains, manholes, lift stations, force mains and other improvements in accordance with Rule No. 5) to the Company to serve new service connections, or install on-site wastewater facilities to serve new service connections and transfer ownership of such wastewater facilities to the Company (same as line extension agreement).

"Off-Site Facilities" means wastewater treatment facilities, effluent disposal equipment, sludge disposal equipment and related appurtenances necessary for proper operation, including engineering and design costs. Off-Site facilities may also include lift stations, force mains, collection mains and related appurtenances necessary for proper operation, if these facilities are not for the exclusive use of the applicant but rather those facilities will provide regional or system wide benefits.

"Service Connection" means and includes all residential, commercial, industrial, or other use service connections.

Mohave Wastewater District
(Name of Service Area)

Treatment Plant Availability Hook-Up Fee TPA – 1
(continued)

Rates

Each new service connection shall pay the TPA -1 fee indicated below based on the meter size to be installed:

Treatment Plant Availability Hook-Up Fee		
Meter Size	Factor	Total Charge
5/8" x 3/4"	1.0	\$2,600.00
3/4"	1.5	\$3,900.00
1"	2.5	\$6,500.00
1 1/2"	5.0	\$13,000.00
2"	8.0	\$20,800.00
3"	16.0	\$41,600.00
4"	25.0	\$65,000.00
6"	50.0	\$130,000.00
8"	100.0	\$260,000.00

Special Conditions

1. Assessment of One Time Hook-Up Charge: The hook-up fee may be assessed only once per Service Connection, or residential lot within a platted subdivision (similar to service line installation charges). However, this provision does not exempt from the hook-up fee, any newly created parcel(s) which are the result of further subdivision of a lot or land parcel and which do not have a Service Connection.
2. Time of Payment:
 - (a) In the event that the Applicant is required to enter into a Main Extension Agreement, payment of the charges required hereunder shall be made by the Applicant when operational acceptance is issued for the on-site wastewater facilities constructed to serve the improvement.
 - (b) In the event that the Applicant is not required to enter into a main extension agreement, the charges hereunder shall be due and payable at the time wastewater service is requested for the property.
3. Failure to Pay Charges: Delinquent Payments: Under no circumstances will the Company allow wastewater service to be established if the Applicant has not paid in full all charges as provided by this Hook-Up Fee.
4. Off-Site Hook-Up Fees In Addition to Other Charges: The off-site hook-up fees shall be in addition to any costs associated with a main extension agreement for on-site facilities, and are in addition to the amounts to be paid pursuant to charges authorized under other tariffs. This TPA-1 tariff replaces the Treatment Plant Availability Fee of \$785 approved in Decision No. 69440.

Arizona-American Water Company
(Name of Company)

SHEET NO.

Mohave Wastewater Distric
(Name of Service Area)

Treatment Plant Availability Hook-Up Fee TPA – 1
(continued)

5. Use of and accounting for Sewer Facilities Hook-up Fee: Proceeds from the hook-up fee shall be accounted for as a contribution in aid of construction. As such, they will be treated as an off-set to the cost of Off-Site Facilities included in rate base in any future ratemaking proceeding including pre and post in-service AFUDC or its approved equivalent. The Company shall maintain on its books an accounting of the Sewer Facilities Hook-up Fees collected pursuant to this tariff and an accounting of the Off-Site Facilities constructed subsequent to adoption of this tariff.
6. Disposition of Excess Funds: After the Hook-Up Fee has been terminated by order of the Arizona Corporation Commission, any Sewer Facilities Hook-Up Fees collected in excess of the total amount expended by the Company for construction of Off-Site Facilities shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund, if any, becomes necessary.